SUGAR PRICES AND DISTRIBUTION UNDER FOOD CONTROL

SUMMARY

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I

HAS government regulation of prices and distribution of sugar by the United States Food Administration been a success or a failure ? What light does this particular experiment throw upon the general problem of public regulation ? The pre-war attitude and possibly the present opinion of most Americans and preëminently that of the business and professional classes is well typified by that of Senator Henry Cabot Lodge in his speech upon the Shortgage of Sugar before the Senate, February 27, 1918. " . . . We undertook to check the operation of these great economic forces by the artificial and arbitrary methods of law and by executive action. It was proposed to reduce prices in spite of the overwhelming economic forces which were working always steadily and relentlessly toward their advance and at

the same time to stimulate production. Nothing could be more desirable than both these purposes, but there was much doubt in the minds of those who reflected upon these subjects whether such an experiment as this could possibly succeed. The artificial regulation and fixing of prices had been tried over and over again in the past and history shows only a record of failure in the attempts."

In our study of the experiment with sugar we shall consider in turn the sources and distribution of supply, both before the war and since it began, the price-fixing negotiations and settlements, and their outcome so far as can be ascertained at this time.

Inasmuch as sugar is universally consumed and its production is not confined to a few localities but scattered throughout the world, with modern means of communication and transportation, anything which materially affects production or consumption in one section has its influence on the entire sugar world. Hence the sugar situation of the United States must be considered in relation to world conditions. The present extremely abnormal conditions are due to two main causes resulting directly from the war: first, the area formerly furnishing nearly one-third of the world's sugar, and what was the largest source of supply for non-producing countries, is within the European battle lines; secondly, transportation facilities have become inadequate for the proper distribution of the sugar produced outside of the Central Powers. Most noteworthy in the latter connection is the lack of bottoms to transport the enormous tonnage of Javan sugar, which burdens its producers as much as the lack of it burdens many of those in need.

We can get a more accurate idea of the world situation and particularly of the situation of the United

States and her European allies if we examine two condensed tables showing world production and sources of United States consumption for a few years before the war as well as since.

Sugar Crops of the World

(In Thousands of Long Tons)

Cane Sugar	*1912-13* [1]	*'13-14* [1]	*'14-15* [1]	*'15-16* [2]	*'16-17* [2]	*'17-18* [2]
Louisiana and Texas	173	268	220	124	277	227
Hawaii	488	551	577	530	579	525
Porto Rico	350	325	315	431	449	475
Cuba	2,428	2,598	2,593	3,008	3,024	3,200
Other West Indies	241	310	307	493	391	412
Mexico and Central America	152	152	132	90	75	60
South America	591	779	866	749	774	948
Total America	4,404	4,983	5,010	5,337	5,570	5,847
British India	2,552	2,291	2,381	2,634	2,626	2,750
Java	1,131	1,345	1,303	1,199	1,596	1,800
Formosa and Japan	117	204	262	405	436	450
Philippine Islands (Exports)	155	228	243	332	210	273
Total Asia	4,155	4,066	4,189	4,569	4,868	5,273
Australasia	190	358	342	250	293	365
Africa	416	475	524	523	526	534
Europe (Spain)	14	13	7	6	6	6
Total Cane Sugar	9,179	9,892	10,072	10,694	11,263	12,026
Beet Sugar						
Germany	2,732	2,720	2,500	1,720	1,350	1,200
Austria	1,920	1,703	1,602	1,033	800	700
France	929	805	303	150	181	210
Belgium	300	231	204	120	135	125
Holland	317	230	302	240	269	210
Russia	1,384	1,688	1,967	1,584	1,158	900
Other countries	709	804	678	664	546	419
Total Europe	8,341	8,180	7,557	5,511	4,456	3,764
United States	624	655	646	780	735	750
Canada		10	12	15	13	12
Total Beet Sugar	8,966	8,846	8,215	6,306	5,202	4,526
Grand Total Cane and Beet	18,144	18,738	18,288	16,639	16,467	16,552

[1] Based on table in Willett & Gray's Weekly Statistical Sugar Trade Journal, January 6, 1916. Slight discrepancies in the figures do not lessen their value for this article.

[2] Ibid., January 10, 1918. Figures for 1918 estimates only.

Sources of United States Sugar Supplies

(In Thousands of Long Tons)

	1912 [1]	*1913* [2]	*1914* [2]	*1915* [2]	*1916* [3]	*1917* [3]
Total Consumption, U. S.	3,504	3,743	3,761	3,802	3,659	3,954
La., Tex., Ariz. (Cane)	257	208	144	225	225	264
United States Beet	517	625	624	769	700	840
Hawaii (Cane)	526	507	510	509	534	631
Porto Rico (Cane)	286	331	274	300	393	464
Philippine Islands (Cane)	132	45	121	120	111	79
Various sugars from foreign molasses, maple, etc.	15	19	20	15	14	12
Total Domestic	1,733	1,735	1,694	1,939	1,977	2,291
Cuba (Cane)	1,665	1,991	2,019	1,842	1,667	1,652
Foreign Consumed	106	18	48	21	15	13
Total Refined	3,441	3,678	3,663	3,648	3,526	3,791
Consumed in raw or plastic state	63	65	98	153	132	164

It will be seen that tho the total world production for each of the last three years has been approximately one and a half to two million long tons less than in the three preceding years, the greater part of the reduction has been within the territory controlled by the Central Powers and much of this has been offset by increased production in other countries, especially in Cuba and Java. The net result has been that the Allied belligerents and neutrals have had available almost if not quite as much sugar as before the war; that is, as much would have been available except for lack of transportation facilities.

If we examine the table giving the sources of supply for the United States it will be seen that for a few years prior to the beginning of the war about half of the United States consumption was supplied by the domestic industries and the other half was imported from Cuba. Under the title of domestic industries are included not only the beet and cane sugars of continental United States, but also the cane sugar of Hawaii and Porto Rico. If we were to go back twenty years, we

[1] Willett & Gray's Weekly Statistical Sugar Trade Journal, January 9, 1913, p. 12.
[2] Ibid., January 6, 1916, p. 3.
[3] Ibid., January 10, 1918, p. 15.

should find considerable importations of German and other foreign sugars into the United States, but the development of the American beet sugar industry, the increase of production in Porto Rico since its annexation, and most of all the stimulation of output by preferential treatment of Cuban sugar, coincident with the withdrawal of government bounties to European sugar since the Brussels Convention of 1903 — all these have tended to crowd out of our market all foreign sugars other than those from Cuba, so that for the past decade only insignificant amounts have been imported.

The United Kingdom is second only to the United States in the amount of sugar consumed. Prior to the war she produced no sugar, except comparatively small quantities in some of her West Indian and other possessions.[1]

Before the war nearly all of the larger nations among the European belligerents and the Low Countries also were large exporters of sugar, and the others produced about what they consumed. Speaking approximately, European beet sugar constituted about four-ninths of all the world's supply before the war; of this, one-third was furnished by Germany, one-fifth by Austria-Hungary, one-fifth by Russia, and one-tenth by France. Of their respective productions in the decade prior to the war, Germany exported about two-fifths, Austria one-half, Russia one-fourth, and France one-eighth. Italy's exports were practically nil, and her imports since 1900 insignificant, her consumption being very small. In fact, per capita consumption in all continental European countries was only half or even less than half of that of the United States and the United Kingdom, owing largely to the lower standards of living

[1] British India has a large production but as all of it is consumed there, none is exported to enter the markets of the world, and hence its production is seldom considered in estimating causes and effects in the sugar world.

and also to the high internal taxes which raised the price of sugar.

This was the general situation in the sugar world when the war broke out and upset everything. The British government almost immediately made large purchases of sugar in the Cuban market in anticipation of needs that could not be supplied from the usual continental sources. From that time until the appointment of the International Sugar Commission in the autumn of 1917 we had the active competition of American refiners, the Entente buyers and neutrals of both Europe and America in the Cuban market, a market which prior to that time had been almost the exclusive field of the Americans. France's richest sugar area was within the enemy lines and she too had to have Cuban sugar. The increasing demand for tonnage, together with the decreasing supply, soon made imports of Javan sugar, either to the United States or to Europe, very costly. Owing to the greater distance it takes three times as much tonnage to carry sugar from Java as from Cuba to Europe. With the entrance of America into the war such imports became absolutely inexpedient.

Just prior to the war, sugar was cheaper in the United States than it had been for many years. In April, 1914, granulated sugar was quoted at $3.67 per 100 pounds in New York and it had been below $4.00 for several months. It was only a little above $4.00 when war broke out. Within a month it had risen to $7.10, tho it soon fell from that pinnacle. The chief causes of low prices in the United States were the lowering of the sugar duties in the Underwood Tariff and the increasing world production, especially the greater Cuban production. The effect of the latter of course was to decrease prices all over the world. Had there been no war the world would have probably seen gradually decreas-

ing sugar prices and, had it not been for the renewal of the temporary tariff rates of the Underwood bill (which were to have been removed May 1, 1915) the United States might have expected three-cent sugar. Instead we have had smaller world production, much of this unavailable, and consequent mounting prices, until in August, 1917, raw sugar reached 7¾ cents and refined 9¾ cents New York wholesale. Of course retail prices were proportionately higher. It was August 10, 1917, that Mr. Herbert Hoover was appointed Food Administrator of the United States and he soon began his efforts to control the supply and price of sugar in the United States, or as he prefers to put it, to " stabilize " prices. It is with the results of these efforts that we are primarily concerned in this paper. It may be added that this same problem was the center of the Senate investigation into the causes of the shortage of sugar which was conducted by the Committee on Manufactures last December and January.[1]

II

President Wilson seems to have decided soon after we entered the war, if not before, that we should have a food administration. Mr. Hoover came from Europe at the invitation of the Council of National Defense to advise on questions of food supply and control. He arrived in Washington May 3, 1917. Shortly he appeared before the Senate Committee advocating food control, and started his propaganda for food conservation. Later he appeared before the House Committee, and on May 19 received from the President a temporary appointment as food administrator. The food control bill was introduced into the House June 11. It was

[1] This committee never made a report on its findings tho Senator Lodge did report for himself in a speech to which Senator Jones replied. The Hearings before this committee contain a mass of information, and are frequently referred to in the following.

finally enacted August 10, and Mr. Hoover was appointed immediately. During all these three months he was very active, not only in trying to get what he considered proper legislation from Congress, but also in appealing to the good sense and patriotism of the American people to conserve food, and in planning the organization of the expected control.

As later worked out, this organization involved the creation of a Sugar Division of the Food Administration, the creation of the International Sugar Committee and various agreements with the beet and cane sugar producers of the United States and Cuba, besides the regulation of the wholesale and retail trade throughout the country. The Food Administration was not given the power to fix prices of sugar directly or to buy it, as was the British food controller. It was given the power to declare excessive profits extortionate and to revoke the licenses of violators of the law, but Mr. Hoover deemed it wiser to follow the plan of prevention of abuses through the fixing of maximum prices or margins by voluntary agreements with the producers rather than to cure the trouble after the event by penalties. The negotiations with the various interests and the operation of the organization affected form one of the most interesting chapters in the history of the Food Administration.

On August 15, Mr. Hoover appointed George M. Rolph chief of the sugar division of the Food Administration. Mr. Rolph had been connected with the Hawaiian industry since 1898. For some years he was secretary of two raw sugar producing companies. Under his leadership, the producers of about 80 per cent of the Hawaiian output formed the Sugar Factors Co., Limited, mainly for the purpose of disposing of their raw sugars to better advantage. This organization owns most of

the stock in the California and Hawaiian Sugar Refining Co. which operates a refinery at Crockett, California and of which Mr. Rolph has been general manager for the past twelve years. This factory takes a little over half of the output of the members of the Factors Company, the rest being sold under contract to two independent eastern refineries, the Pennsylvania and the National. Mr. Rolph testified before the Senate Committee that he had given up a good salary to work without compensation for the Food Administration, that he had owned no sugar stocks or lands for over ten years, and that he had volunteered that the California and Hawaiian refinery should reduce its prices of cane sugar to $7.25, the beet basis, or about $1.00 under the cane price maintained by the eastern refiners for several months, thereby sacrificing his company to the extent of $700,000. Throughout all the hearings of this committee, no one, unless possibly Senator Reed, seemed to think that Mr. Rolph had acted from self-interested motives in the conduct of his work with the Sugar Division.

The day after Mr. Rolph's appointment, the New York Sugar Exchange was closed and shortly thereafter representatives of the beet sugar companies of the United States were summoned to Washington. After preliminary negotiations with representatives of about 85 per cent of the domestic beet output, Mr. Hoover announced, under date of August 25, that they had agreed to sell the 1917–18 crop of beet sugar at $7.25 cane basis, seaboard refining points. Some weeks later this was accepted by all of the domestic beet sugar companies. This base price was changed to $7.35 on December 12, and to $7.45 on January 8, to make it conform more nearly to the cane basis as established after the agreement with the Cuban producers. These prices are apt to be slightly misleading to laymen

because very little beet sugar is sold at the seaboard refining points — Boston, New York, Philadelphia, Savannah, New Orleans, and San Francisco. At interior points, where practically all beet sugar is marketed, the price would be $7.25 plus the cost of transportation from the nearest seaboard refinery, so that beet sugar of Colorado, Utah and other far inland factories would sell much higher at their very doors than at points near the seaboard. This basing point arrangement was in harmony with commercial practice before the war, that is, beet sugar has always been sold at interior points at prices to meet the competition of imported sugars rather than in relation to cost of production. The nearer the seaboard, the less freight for cane sugar and the more freight the beet sugar had to absorb.

To provide for the proper distribution of beet sugar, rather than leave it to the usual commercial agencies a Sugar Distributing Committee was appointed by the Food Administration. It is composed of representatives of the beet sugar producers and brokers of the beet sugar territory of the United States and has headquarters at Chicago. Mr. Horace Earle, a sugar broker of Minneapolis, is the active manager of the organization. This central organization has local representatives scattered throughout the country. The price of sugar at every point throughout the distributing territory is established by adding the freight rate from the nearest seaboard refinery to the base price as explained above. Representatives of this distributing committee endeavor to allot available sugar as fairly as possible to the dealers in the various localities, and to see that it is shipped from the factory that will have the lowest freight rate to absorb. Of course, a difficulty arises when the nearest factory or factories cannot supply the

demand and a distant one is requested to do so. But clause 5 in the agreement with the beet sugar companies [1] provides for the pooling of losses occasioned by the long shipments of some; hence the tendency to hold back such sugar is minimized. Only by some such agreement could the Chicago distributing committee have a free hand without causing great friction. Besides the advantage of more equitable distribution, representatives of this committee claim a great saving in freight charges, and hence a saving of railroad facilities for military purposes also. For example, in ordinary years competition frequently results in the shipping of Michigan beet sugar into Iowa and other states west of the Mississippi, while Colorado and other western beet sugar goes as far east as Pittsburgh and often further, to say nothing of cross freights of cane and beet sugar.

When asked upon what basis they arrived at $7.25 for beet sugar, Mr. Hoover replied that the cost in the various factories ranged from $4 to $7 per 100 pounds and that they had to make a price that would keep the highest cost producer in operation so as to maintain a maximum production.[2] According to an investigation of the Federal Trade Commission [3] published last year, the average cost for 74 factories producing 96 per cent of all the beet sugar in the United States during the five years ending with the season of 1913–14 was $3.74 per 100 pounds, including depreciation, which for these factories averaged 25 cents. The five-year average range for the individual factories was from $3.13 to $6.45.[4] With respect to earnings the report covers 37 companies, operating 77 factories that produced

[1] Senate Hearings, p. 349. [2] Ibid., p. 591.

[3] Report on the Beet Sugar Industry in the United States, 1917, p. x. This report covers in detail all the beet sugar factories operating in the United States at that time except two small ones.

[4] Ibid., pp. 72–74.

nearly 99 per cent of the total output during the same five years. In this period these companies earned in the sugar manufacturing business an average of 11.2 per cent on the capital employed therein. The average earnings of all the companies by years ranged from 16.6 per cent in 1909–10 to 3.1 per cent in 1913–14, the year the tariff was reduced. In no year except 1913–14 were the average earnings as low as 8½ per cent. The five-year average for each of the 37 companies varied from a loss of 17.8 per cent to a net income of 44.8 per cent and yearly returns from individual companies varied from losses of 36.6 per cent to net earnings of 64.2 per cent. These figures include allowances for depreciation.[1] Since the war began, altho costs have risen considerably, especially during the past year, their profits have been much greater. In some cases they must have exceeded the dreams of the most avaricious.

Shortly after announcing the agreement with the beet sugar factories the Food Administration took steps to secure agreements with the other sugar interests. The seaboard cane refiners were called to Washington, and negotiations with Cuban producers were begun also. As most of the refiners got nearly all of their raw sugar from Cuba and as the Entente governments as well as neutrals were competing buyers in the same market, it was necessary to make an agreement with England, France, and Italy in order to deal with the Cuban situation.

A British sugar commission had been in existence for a long time as a purchaser for the British government. On September 21, the International Sugar Committee was appointed. Two representatives, Sir Joseph White-Todd and J. Ramsay Drake were appointed by the Royal Sugar Commission in London, acting for the

[1] Report on the Beet Sugar Industry in the United States, 1917, pp. xi and 130.

English food controller, and Mr. Hoover appointed three members — Mr. Rolph, chairman, Mr. Earl D. Babst, president of the American Sugar Refining Co., popularly known as the sugar trust, and Mr. William A. Jamison of Arbuckle Brothers, independent refiners of New York City. Mr. Hoover stated [1] that the French government also appointed a representative.

The main purposes of the International Committee are to promote harmony in buying and transporting raw sugar for the several Allied belligerents, as well as in making allotments to neutrals. The three American members of the International Committee decide purely local questions in regard to the shipment of sugar from Cuba while the English members decide all questions in regard to European shipments. The American Refiners' Committee, composed of refiners and their sales agents, has the allocation of the sugar set aside for the United States by the International Committee. After the purchase of the sugar was consummated, the American Refiners' Committee became the active committee and met almost daily, allotting the various shipments of sugar to the refiners as they came forward from Cuba, Porto Rico and other places. The distribution of cane sugar is entirely in the hands of the Food Administration, that of beet sugar, in the hands of the Sugar Distributing Committee at Chicago but under the direction of the Food Administration. The expenses of all of these committees are borne not by the Food Administration or the government but by the refiners, among whom they are prorated.

After more or less negotiation the seaboard cane sugar refiners agreed to refrain from their usual direct buying of Cuban and other raw sugars and to permit the International Committee to arrange all purchases for them.

[1] Senate Hearings, p. 596.

Furthermore, they agreed to limit their refining differential, or excess of selling price of granulated over buying price of raw sugar, to $1.30 per 100 pounds. This differential was a maximum and might later be changed if the Food Administration investigated and found it to be unreasonable. It covers the cost of refining and profits. According to the best information obtainable by the writer this cost averaged about 60 cents six or eight years ago, but was claimed by the refiners to have risen to 85 cents before the war began and still higher since so that last fall $1.30 was supposed to be equivalent to the 85 cents before the war. It has recently been announced (June) that Oscar S. Straus, Chairman of the Public Service Commission of New York, has been appointed by the Food Administration to investigate and determine upon an application of the sugar refining companies for an increase in the differential due to increased cost of labor and supplies since October. Of course, like other costs and margins, those of refiners vary very much, not only between the different refineries but from year to year and season to season. At the beginning of 1917 the margin was $1.345. During the year it reached over $2.00 and sank as low as $.712.[1] Altho the Food Administration agreement was for a differential of $1.30, which was in force for most of the last quarter of 1917, the change to the new crop raw basis previous to the drop in refined prices made the nominal difference $1.982 at the close of the year.

Nearly all of the Cuban sugar crop of 1916–17 had been disposed of by the time the International Committee was appointed on September 21. It is estimated that there were probably 50,000 tons unsold. At this time none of the negotiations, namely those with the beet sugar producers, the cane sugar refiners, and the

[1] Weekly Statistical Sugar Trade Journal, January 3, 1918, p. 4.

Cubans, were completed, tho there were tentative agreements with all but the latter. The price of Cuban sugar controls that of all others and, in all the negotiations the Food Administration and the producers, while talking costs of production and fair profits as bases of prices, nevertheless kept a watchful eye on the probabilities in Cuba. The Food Administration was fearful lest the scramble for the remnant in Cuba, which was entirely inadequate to meet demands, would raise prices to high levels, not only for that remnant but also for the entire 1917–18 crop about which it was then negotiating, and which would furnish the total supplies for all the Allies, including the United States, as well as for neutrals. Consequently before the formal agreement was finally signed by the various American refiners, they were requested to keep out of the Cuban market and to arrange for purchases through the International Committee only, and that committee refused to arrange for any purchases at higher than $6.90 delivered in New York. This was nearly $1.00 under the maximum price reached in August. This remnant of Cuban sugar was finally secured through the committee, tho in the meantime many of the eastern refineries had to close down for lack of raws. In any case, it would have run them only a very short time. Meanwhile negotiations were continuing regarding the new Cuban crop and also regarding the Louisiana crop.

The harvesting and marketing of the bulk of Cuba's as well as of the world's sugar crops begins about the first of the year and continues into the early summer. The large Javan crop coming from the southern hemisphere usually helps to fill in the between-season gap, but, as mentioned above, most of it was unavailable last year. But even in ordinary years, the summer demand makes for high prices in August and September. Some

relief is usually afforded by the beet sugar crop, which begins coming on the market in October. Serious frosts occur in no important cane sugar area other than Louisiana, hence that crop usually begins coming on the market earlier than Cuban sugars, the largest source of supply for the United States. It was the hope of the Food Administration that the western beet sugar and the Louisiana cane sugar would fill in the gap till the new Cuban crop started.

In October the Food Administration negotiated with Louisiana producers and finally agreed upon a price of $6.35 at New Orleans for their raws, and the American Sugar Refining Co. agreed to take 100,000 tons at that figure. The Food Administration suggested the beet price as a basis but the Louisiana representative considered, in view of their greater costs and other disadvantages, that it would not be sufficient. They were asked to come to Washington for further negotiations and the above price was agreed to October 23, it being deemed about equivalent to the cane price then ruling on the Atlantic seaboard.[1]

The conferences over the price of Cuban raws were drawn out over some months and an agreement at last entered into December 24.[2] At first the Food Administration dealt with representatives of the Cuban producers only, but both the Cuban and American governments entered the negotiations before they closed. The full proceedings have not been made public, but Mr. Hoover stated [3] that he sent a commissioner to Cuba to study costs of production. The study embraced about 80 per cent of the actual production of the year before and arrived at about $3.38 as the average cost of production. Some plantations, of course, had higher costs. They

[1] Senate Hearings, p. 595.

[2] Weekly Statistical Sugar Trade Journal, January 31, 1918, p. 53.

[3] Senate Hearings, p. 597.

thought it would take about $1.00 more than this average to stimulate production and some of the American representatives held strongly for $4.50 The Cuban representatives held out for $5.25 and a long negotiation took place. It was ultimately closed at the request of the United States State Department at $4.60, f.o.b. Cuban ports. This is equivalent to about $6.00 in New York City, after paying the duty of $1.00, freight, insurance and other costs. This was for the new crop sugar, which began to be harvested about the middle of November, tho very little of it got to the United States before the first of the year.

The costs in Cuba vary greatly. Most of the crop throughout the island is produced under the old colono system of tenant farming and crude agriculture. The cane of the four western provinces, or about 60 per cent of the total, is ground by antiquated small mills which have their heavy costs increased by heavy transportation charges. The large American corporations with their high efficiency mills get cheaper cane in the two eastern provinces and have better access to ports. J. V. Knight of New York, who claims to be a disinterested expert on such Cuban matters, puts the cost of the better plants at $3.47. This seems liberal; it is probably 50 to 75 per cent above such costs six or eight years ago, when the present writer made some study of the matter.

At any rate, altho Mr. Hoover states that it was the two governments and not the Food Administration who fixed the price of Cuban sugar, it is clear that much the same principles were followed as in the fixing of the beet and the Louisiana sugar prices. The extreme prices of August were scaled down somewhat but they were still left high enough not only to give a good profit to average producers, but also to maintain even the highest cost

producers with few exceptions. This was in accord with the announced general policy of reducing the cost to the consumer and yet stimulating production, a policy which Senator Lodge said should have been stated in reverse order, because stimulating production was of first importance.

About this time an insurrection arose among the sugar beet growers of the West. Altho the beet sugar companies had been making huge profits since the war, as well as before in many cases, and had arranged for a price which would still assure large profits, the farmers' costs of growing beets were increasing, competing crops were becoming relatively more profitable, and the farmers were refusing to sign the contracts offered by the beet sugar companies for the 1918–19 season. Much pressure was brought to bear, and appeals to patriotism were made by the sugar companies and backed up by the local food administration officials as well as by letters of Rolph and Hoover themselves. The Senate Hearings developed the fact that in some cases the state food administrators, to whom the growers appealed, were interested in, or closely connected with, the beet sugar companies.

It should be recalled in this connection that the payment for beets in the United States has, in most cases, been independent of the fluctuation in the price of sugar, unlike the payment for cane in Louisiana and Cuba. Prior to planting, that is, about a year before the sugar gets on the market, the beet growers sign contracts with the sugar companies wherein it is agreed they are to receive so much per ton for so many acres of beets. Sometimes the price varies with the sugar content of the beets, in other cases it does not. For a number of years, the most common prices paid were $4.50 and $5.00 per short ton (2000 lbs.) and in some

cases 50 cents and $1.00 extra for beets that had to be siloed, the latter in order to cover part of the extra work and shrinkage. In later years these prices were increased in some localities. The United States Department of Agriculture gives the average prices to growers as $5.82, $5.69, $5.45, $5.67, and $6.12 for the years 1912 to 1916, respectively.[1] We have as yet no official statement of the average for the 1917–18 crop, tho we know that several companies made moderate increases and a number gave bonuses of 50 cents per ton. The contracts which a number of the companies offered for the present season contained substantial increases, but many of the growers claimed that they were insufficient and that they could not afford to plant the usual acreage, much less the increased acreage which was urged in the name of patriotism. After many meetings in various parts of the beet-growing sections and failure to obtain what the growers deemed just, in fact, failure to obtain much consideration from some of the beet sugar companies, they sent delegations to Washington to appeal to Mr. Hoover. The investigation of the causes of the shortage of sugar happened to be on at this time, and a number of their representatives testified before the Senate committee. They alleged among other things that most of the advances in prices of beets which had been made had been forced, or were made in order to quiet dissatisfaction and agitation.

Mr. Hoover virtually admitted before the investigating committee[2] that in agreeing on the price for beet sugar he had not given attention to the growers, but justified this on the ground that the prices of beets for the 1917–18 sugar crop had already been settled by contracts between the sugar companies and the farmers.

[1] Monthly Crop Report, May, 1917, p. 43.

[2] Senate Hearings, pp. 590–595.

After the farmers' delegations came to Washington, he appointed local commissions in a number of states, among them California, Colorado, Nebraska, and Michigan. The expectation was that the findings of these commissions would serve as a basis upon which the growers and factories could be urged to agree upon a price that would result in an adequate production. Generally speaking the investigations did not consider the prices of competing cane sugar at the seaboard refining points, nor the profits of the factories, but primarily the cost of growing sugar beets and the relative advantages of beets as compared with competing crops. We have no full report as to results, but in each of the states mentioned the sugar companies raised the prices in their contracts to $10.00 per ton. The Department of Agriculture reported in May that there was every indication that a normal crop had been planted.[1] This forecast may prove optimistic; the indications are that at all events no increase of output is to be expected.

A word should be said about the regulations regarding the distribution of sugar after it leaves the refiners and factories. The $1.30 differential allowed refiners was supposed to include the brokerage of 3 to 5 cents per 100 pounds which refiners pay agents for selling their sugar to jobbers and wholesalers. The latter were, according to the terms of the law, supposed to deal in all commodities at cost plus a reasonable profit and Mr. Hoover interpreted that to mean a pre-war normal profit for the time, place, and business. The wholesalers generally took that to mean 25 cents a hundred pounds and the discount of 2 per cent for cash from the retailers.[2] The law gave the Food Administration no

[1] Weekly Statistical Sugar Trade Journal, May 29, 1918, p. 236.

[2] Senate Hearings, pp. 641, 825 et passim.

power to regulate retailers except those doing more than \$100,000 business a year. It did contain a provision against extortionate prices, but the penalty attached to that section of the bill was deleted, and according to Mr. Hoover,[1] all he could do was to instruct wholesalers not to deal with them.

Practically it is very difficult in any case to manage 350,000 retailers and several thousand wholesalers scattered throughout the United States. But at least it is a matter upon which public opinion could be focused. The public generally is conversant with the limitations of quantities which customers might purchase. These have varied with time and place. In many instances the limit was one pound or even less at a purchase, and in New England and other eastern sections no sugar was available at times in the latter part of 1917. The general rule for purchases in the United States has been five pounds for urban and ten pounds for rural customers. Recently these have been changed to two and five pounds respectively, with the limit of three pounds per capita per month.

In October the manufacturers of non-essential food products were limited to 50 per cent of their normal requirements; on December 28 this was raised to 80 per cent in view of the new crop in prospect. Later it was ruled that such manufacturers starting operations after November 1, 1917 but before April 1, 1918 would be limited to 50 per cent and that those starting after April 1, 1918 should be allotted no sugar whatever. Again on July 1, 1918, all of the less essential industries were limited to 50 per cent. Beginning May 15, 1918, practically all manufacturers using sugar were required to obtain certificates from the Federal Food Administration, showing amounts that they were entitled to

[1] Senate Hearings, p. 642.

purchase, which they were required to turn over to licensed wholesalers and other dealers when making purchases.[1]

III

The organization of the Sugar Division of the Food Administration has been severely criticized, especially by some refiners and a number of brokers. A number have objected to the appointment of refiners and especially to the appointment of Mr. Babst, president of the so-called Trust, on the International Committee, and point out that the British representatives are sugar merchants but not refiners. Mr. Hoover and others justified these appointments on the ground that it was necessary to have capable men who were familiar with the large and difficult problems, that none of them had raw sugar interests, and that they did not make decisions in matters involving their own interests. There is no record of objection to Mr. Jamison of Arbuckle Brothers, nor of serious objection to Mr. Rolph; and it would seem that the latter had made large financial sacrifices and had worked energetically, patriotically and capably for the Food Administration. Doubtless

1 Sugar Market Review (Federal), May 8, 1918, pp. 2, 3. Following is an estimate compiled by the Sugar Division from information given by manufacturers, tho it appears to be far from complete. (See Weekly Statistical Sugar Trade Journal, April 4, 1918, p. 171.)

	Tons		Tons
Confectionery	350,000	Sundry Bakery Goods	9,000
Soft Drinks	135,000	Tobacco	26,000
Condensed Milk	100,000	Canned Fruits	9,000
Ice Cream	64,000	Chewing Gum	15,000
Crackers	55,000	Proprietary Medicines	6,100
Pies	47,000	Canned Vegetables	4,000
Bread	45,000	Soap	900
Sweet Doughs	45,000	Brewers	None
Cakes	37,500		
Total			966,000

The figures, such as they are, would indicate that one-quarter of the domestic consumption is for these various uses.

much of the objection to Mr. Babst is due to the elimination by his company of all brokers in the selling of sugar, a thing which it could easily do without danger of losing custom as long as its allotment of sugar was fixed (at 41 per cent of the total) by the Food Administration. In view of the holdings of his company and of stockholders of his company in beet and possibly in other sugar stocks, it is not entirely clear that he is a disinterested official. The dilemma which a patriotic administrator in Mr. Hoover's position confronts is that of selecting capable and informed representatives who are interested or uninformed ones who are disinterested. The present writer is inclined to think that Mr. Hoover's organization of the Sugar Division of the Food Administration compares favorably with other similar arrangements in the government service.

The Food Administration has claimed that it has saved the consumers of the country many millions of dollars in lower prices of sugar. The New York wholesale price in August, 1917, went to $9\frac{3}{4}$ cents, and retail prices for granulated in some localities as high as 15, 20 and even 25 cents. It has been said that 25 or 30 or even 50 cents would have been a common price had it not been for regulation. One of Senator Lodge's favorite questions, repeated so often in one form or another that it became almost a joke, was: What comfort is there in a low price when no sugar can be obtained? "The gratitude which the vast majority of people of a large section of the country ought to have felt for the low prices of the Food Administration did not seem to comfort them when they sat at a table where sugar had become a memory." [1] Senator Reed and others pointed out that the world's production of sugar and the supplies available for the United States

[1] Senate Speech of February 27, 1918.

were not less but slightly more than for the preceding year, and that prices were usually highest in August, hence, that they would have fallen naturally if there had been no regulation. There is truth in this contention and one who reads between the lines can see that not only Mr. Hoover but also most of the interested parties were aware of this during the negotiations as to prices. If transportation had been normal, there is little doubt that prices would have fallen as low as the regulated prices, even lower if all the Javan sugar could have been secured.[1]

It was not only the shipping situation, however, but also the railroad situation that blocked the proper distribution of sugar as of most other goods. The Food Administration had expected that the Louisiana sugar would fill the between-season gap on the Atlantic coast, and especially in New England, where the shortage was most severe and prolonged. But the Atlantic coast refineries got much less Louisiana sugar than usual, largely because the prices set enabled the Louisiana producers to make more profit on clarified and washed sugars, which they could manufacture on their own plantations and easily dispose of at such a juncture, than they could by sending them to the refiners. Manufacturers of confections gladly bought these lower grade sugars at refined prices rather than do without. Other causes of shortage were the frost damage to the Louisiana crop, larger than contemplated exports to the Allies, and possibly the failure to get some South American sugars because of the regulated price.

It was Mr. Hoover's original intention to confine the distribution of beet sugars to the territory west of Pittsburgh and Buffalo, but when the shortage became more

[1] Mr. Hoover tried to arrange that the German ships interned at Manila should bring this sugar, but the Shipping Board decided it more important that they should bring hemp.

severe in the East, he tried to get some of them into that territory. The railroad situation had become so acute by that time that it was almost impossible, if not quite so, to secure adequate quantities, tho about 196 cars were thus obtained before the end of the year. The price of this sugar was raised by the Food Administration from $7.25, the agreed beet basis, to $8.15 old crop cane basis. Mr. Hoover claimed that the raising of the price had nothing to do with the getting of beet sugar into the East, that it was raised because the consumer would get no benefit from a lower price in any case as long as cane was selling at the higher prices, and that it helped to compensate the distributing trade for the extra freight cost of penetrating that territory.[1]

This last was almost an admission of a part of the contention that the eastern shortage was due in part to the regulations regarding the price of beet sugar. Under ordinary conditions, the high prices in the East in the between-season gap would cause a rush of beet sugar to fill the void. The beet sugar companies would naturally desire to dispose of all the sugar possible in October, November, and December, before the depression of prices by the huge Cuban crop which usually begins in earnest in January and reaches its heaviest pressure in February and March. But under the agreement with the Food Administration factories were to receive the same price the year round, and the farther they sold from the seaboard the higher the price, and the less freight they had to absorb. It seems probable that more beet sugar would have gotten through in the early part of the fall without regulation than did with it. But it is open to question whether the transportation situation would have let much more through or not, or whether the country might not have suffered

[1] Senate Hearings, p. 608.

more for something else than it did if the sugar could have gotten through. Without first hand information as to the indiscriminate handling of priority orders and the undeniable congestion and chaos, it is impossible to judge the difficulties of the freight situation. The question of sugar did not stand alone. If enough transportation had been denied other things, of course there would have been sufficient for sugar. But almost everybody was clamoring for priority on this or that, and prices of sugar were not primary, as usual, but secondary in determining where it should go and in what quantities. With the transportation situation as it was, it seems certain that without regulation prices of sugar to consumers would have been much higher than they were in many localities, tho probably not higher and possibly somewhat lower in beet sugar sections, and on the western coast where Hawaiian as well as beet sugar was available. The little extra sugar which unregulated high prices would have brought to New England and other needy sections would not, probably, have been distributed under such a régime to the most needy of these sections so well as was possible under the regulated price and limitations upon quantities purchased.

The writer has had special reports from all sections of the United States, both from local food administrators who might be biassed in favor of the Food Administration and from independents as an additional source and check. These reports indicate that the regulations regarding prices, margins, and quantities have been very generally observed, and that there have been comparatively few violations. There is some indication that "good customers" as well as unreasonable customers, especially foreigners and disloyalists, get around the restrictions in one way or another. Yet not only is

the general opinion favorable, but in many cases the information is volunteered that the regulations regarding sugar are better observed than those for flour or other commodities. In no case is poorer observation reported.

There seems to be general satisfaction, also, on the part of manufacturers, wholesalers, brokers, retailers and the public, tho probably this would not be the case except for the war emergency. The most severe complaints have been those of the brokers and a few refiners against Mr. Babst and the American Sugar Refining Co. of which we have spoken already. These were only partially against the Food Administration. It is reported that some of the wholesalers feel that they have suffered most by the regulations. While their costs of doing business have been climbing, their margin on sugar has been kept to the pre-war basis. It is urged that this margin was below cost even before the war and would not have been so low except for the fact that they recouped themselves by making sugar a " leader " — a practice which the Food Administration's conservation plans condemn.

Perhaps the most serious, widespread and well taken complaints on the part of the public have been those against allowing large quantities of sugar to go into non-essentials while making rigorous restrictions upon household use. Mr. Hoover stated before the Senate investigating committee that about 250,000 people are employed in the candy industry, and that it would be a serious thing to throw them " entirely out of work." It seems probable that the majority of them could have been absorbed in other more essential industries through gradual reduction of allotments of sugar and proper handling of employment. There is certainly plenty of essential work to be done, and confectionary, soft

drinks, chewing gum and proprietary medicines do not seem to be more important than sugar for the household. There is a counter consideration, however, which has been raised and about which the writer is unable to decide, namely, how important these non-essentials are as substitutes for worse things, especially in view of the national campaign for prohibition.

As yet we can speak less confidently about the effects of the regulations upon production than of those upon distribution of last year's crop. At the time this article is prepared, there are no adequate data of plantings in the various producing areas. Early information is that the acreage of United States beets is $2\frac{1}{2}$ to 11 per cent, and that of Louisiana cane 4 or 5 per cent, less than for last year.[1] An 11 per cent reduction in beet acreage would indicate that a mistake had been made.[2] As to the much larger and more important acreages of Cuba, as well as those of Hawaii and Porto Rico, we have even less adequate information. Even if we had the data for a single year, they would not be conclusive in deciding the merits or demerits of governmental price-fixing or regulation.

We may summarize our conclusions regarding the experiment of governmental control of sugar prices and supply during the past year. The transportation situation without and within the United States, and not price, has dominated the distribution of sugar. With the war dominating transportation, prices of sugar throughout the United States have been stabilized and on the whole lower than they would have been without regulation. Scarcity in some sections has been made little if at all more severe, and prices have certainly

[1] Meinroth Brokerage Co. Report of June 15. Monthly Crop Report, United States Department of Agriculture, May, 1918, p. 57.

[2] Such a decline is alleged in Facts about Sugar (Report for June 15); a publication controlled by the beet sugar interests.

been made much lower through regulation. This has promoted the general welfare. The answer to the crucial problem of the effect of regulation upon supply is still indeterminable, but the Food Administration has proceeded upon the principle of allowing profits to the highest cost producers, and such a policy should not result in greatly reduced supplies.

The success of such regulation depends almost entirely upon the ability and integrity of the administrative personnel and its success in securing the coöperation of the public. In an emergency like the present, without regulation, fluctuations are extreme, and great abuses and hardships are likely to result. A wise and capable administration, especially through its power of appeal to the patriotism of all classes, can eliminate many of the grossest abuses. The automatic, or "natural," adjustments of supply and distribution through price are too slow and involve too much hardship in the case of prime necessities in a time like this. In times of peace, the situation is very different.

From the few instances cited, as well as from one's daily observation, it is easy to see that the regulation of the price of one thing involves the regulation of the prices of all constituent factors and competing commodities, which in the last analysis means the regulation of wages, as well as the regulation of the prices, the supply and the distribution of everything else. Temporary regulation of gross abuses has as a standard a "natural" norm based on previous experience. Permanent regulation of everything would in time lose sight of such a norm, and would have to rest on norms of its own. The majority of the people in most sections of the United States are not yet socially minded enough to make the balance of advantage fall to the side of public regulation of prices in ordinary times, except under

monopoly conditions and in a few other cases. But despite the many disadvantages, the balance of advantage falls to the side of the public regulation of sugar prices and distribution in the United States under present conditions, as exemplified by the experience of the past year.

The rapid developments that have taken place in the few weeks that have elapsed between the writing and the proof reading of this article are characteristic. Among the important ones are the following: The wholesalers' margin has been increased from 25 to 35 cents. A vast system of minute control of distribution throughout the country has been initiated. The New York price of Cuban raws has been advanced 5 cents per hundred pounds to cover extra insurance since German submarines appeared in American waters. This has necessitated a corresponding readjustment of prices all around. The Department of Agriculture has issued its statement saying that reports indicate 689,700 acres planted to sugar beets in 1918 which is 117,000 acres less than were planted in 1917, and 79,000 acres less than in 1916 (Monthly Crop Report, July, 1918, p. 76), that is, a decrease of 14 per cent as compared with last year, or of 10 per cent as compared with the year before.

But the most important recent development is the formation of the Sugar Equalization Board by the Food Administration. It is composed of Herbert Hoover, chairman; George Rolph, president; directors — F. W. Taussig of the U. S. Tariff Commission; Clarence Woolley of the War Trade Board; William A. Glasgow, Jr., Chief Counsel; Theodore Whitmarsh and George Zabriskie of the Food Administration. It will be incorporated with a capital of $5,000,000 from the President's special funds, so that it may deal with facility in foreign sugar and thus give the Food Administration better control over both distribution and prices. "The object is to absorb the high peaks of cost in sugar production and to make a small margin on the low cost of certain foreign sugars which may be purchased and thus secure an equalization of the price to the public on a lower level than will otherwise be possible." The Food Administration states that the public will thus benefit by upwards of one cent a pound. At the same time it announces that higher costs of production will mean higher prices for the next crop which begins coming on the market in the fall.

Roy G. Blakey.

University of Minnesota.